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An Analysis of Factors Affecting Tax Compliance in the Real Estate Sector: A Case Study of Real Estate Owners in Mombasa County, Kenya

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Abstract: **The main issue faced by all tax authorities is that it has never been easy to persuade all taxpayers to comply with the regulations of a tax system. Real estate sector is one of the fastest growing sectors of the economy in Kenya yet taxes collected from this sector have continually been on decline for the last five years. The study specifically sought to determine the effect of tax compliance cost, tax education and knowledge, fines and penalties and perceived opportunity for tax evasion on tax compliance in the Real Estate sector. The study was be guided by Theory of Planned Behavior. A sample size of 80 was drawn from the target population of 800 real estate investors. The study employed qualitative and quantitative form of data collection. Data was collected using structured questionnaire, coded, keyed and analyzed quantitatively using both descriptive and inferential statistics. The study finding showed that compliance cost has the negative effect on level of tax compliance. However, tax knowledge and education has positive effect on level of tax compliance among real estate investors. Similarly, fines/penalties have positive effect on level of tax compliances, while perceived opportunity for tax evasion has negative effect. The study provides some preliminary evidence that imposing fines/penalties and provision of tax knowledge and education among real estate investors improved tax compliance. Conversely, high compliances cost and high opportunity for tax evasion reduced tax compliance among real estate investors. Thus, tax compliance cost should be in a way that does not encourage taxpayers to evade tax. There should be stiff enforcement of fines and penalties to deter tax evasion. Additionally, tax authorities should simplify processes involved in filling of returns and payment of taxes.**

Keywords: **Real estate sector, tax authorities, real estate investors.**

1. INTRODUCTION

This chapter contains the background of the study where the subject at hand is introduced, statement of the problem stated, objectives of the study outlined, research hypothesis highlighted, significance of the study explained and scope of the study mentioned.

1.1 Background of the Study:

Taxes play an important role in the budget of any economy and one of the main reasons why the government imposes taxes is to generate income to manage the economy and redistribute resources. Over the years, the Kenya government has undertaken various revenue administration reforms aimed at enhancing revenue collection (Masinde and Makau, 2010). One of the measures that have been implemented in order to increase revenue collection in Kenya was the introduction of self-assessment systems (SAS) in 1992. The objectives of this system was to increase voluntary compliance, reduce tax authorities burden of assessing tax returns and increase tax collection efficiency (reduce tax collection costs) (Masinde and Makau, 2010). However despite various administrative reforms, levels of tax compliance have remained quite low. A study conducted by KRA, KIPPRA and the Treasury, based on 1999/2000 data revealed that VAT payment compliance was as low as 55% while return lodgment compliance was 65 %.

Tax noncompliance is a substantive universal phenomenon that transcends cultural and political boundaries and takes place in all societies and economic systems. There many studies that explain the behavior of tax compliance in a more realistic situation. They focus on the determinants of tax compliance, respectively on economic and non-economic factors. Tax non-compliance is an area of concern for all government and tax authorities, and it continues to be an important issue that must be addressed. Regardless of time and place, the main issue faced by all tax authorities is that it has never been easy to persuade all taxpayers to comply with the regulations of a tax system. In contrast to the majority of employed people who in many countries are paid net salaries with taxes being deducted at source real estate investors often need to self-assess and self-report their income and pay taxes out of their pocket." Real estate investors not only pay their income tax but need to take account of various types of business taxes such as corporate tax, property taxes, and payroll taxes; they need to collect sales taxes such as VAT; and they need to withhold taxes such as personal income taxes in the case of having at least one employee (Christensen et al., 2001). While previous studies on tax compliance have focused on the general factors affecting tax compliance, the focus of this study is on the factors affecting tax compliance in the real estate sector. The study specifically sought to determine the effect of tax compliance cost, tax education and knowledge, fines and penalties and perceived opportunity for tax evasion on tax compliance in the real estate sector.

1.2 Statement of the Problem:

The Government of Kenya relies on tax revenues both for its recurrent and development expenditure. In pursuit of this, Kenya Revenue Authority (KRA) has been mandated to assess and account for all taxes due to the government (KRA Act cap 469). Tax compliance level which is internal factor affecting tax revenue not only undermines tax administration infrastructure but also makes the tax base narrow and inequitable. When the level of compliance is low, government revenue collections always fall behind targets. During the 2014/2015 financial year, KRA was able to collect Kshs. 707.4 billion against a target of 717 billion (KRA Fourth Quarter report 2014/2015). According to figures from KRA, rental income declaration declined from 5 Billion in 2011 to 1 Billion in 2012.This is despite the imposition of VAT on commercial rent by the Finance Act of 2011/2012 that would have led to higher tax revenue. In the Budget speech of 2013/2014, the Finance Minister instructed KRA to intensify revenue collection in this sector. There is therefore a need to assess the level of tax consciousness, review factors causing non-compliance and capture the expectations of the taxpaying public with a view to formulating strategies aimed at enhancing tax collection in this sector. It is against this background that this study has been undertaken with the aim of analyzing factors affecting tax compliance in the real estate sector and recommend measures to be put in place by the government and KRA to enhance tax collection in this booming sector.

1.3 Objectives of the Study:

1.3.1 General Objective:

To analyze the factors affecting tax compliance in Real Estate sector in Mombasa County.

1.3.2 Specific Objectives:

i. To determine the effect of compliance cost on tax compliance level in Real Estate sector in Mombasa County

ii. To examine the effect of tax knowledge and education on tax compliance level in Real Estate sector in Mombasa County

iii. To assess the effect of fines and penalties on tax compliance level in Real Estate sector in Mombasa County

iv. To evaluate the effect of perceived opportunity for tax evasion on tax compliance level in Real Estate sector in Mombasa County

1.4 Research questions:

i. What is the effect of compliance cost on tax compliance level in Real Estate sector in Mombasa County?

ii. How does tax knowledge and education affect tax compliance level in Real Estate sector in Mombasa County?

iii. What is the effect of fines and penalties on tax compliance level in Real Estate sector in Mombasa County?

iv. In what ways does the perceived opportunity for tax evasion effect tax compliance level in Real Estate sector in Mombasa County?

1.5 Significance of the Study:

The government raises tax revenues to finance public security, health, education, and infrastructure. In this regard, the government has to ensure that its source of revenue is effective and efficient. The findings of this study may help the government to institute the necessary legislative and administrative measures to enhance tax compliance in cases of voluntary compliance and enforce compliance in cases of non-compliance. Kenya Revenue Authority is interested in maximizing revenue collections and thus it was found that the study was useful in instituting measures, policies, and initiatives to address or minimize non-compliance and thus enhance revenue collection.

Tax Practitioners assist taxpayers to interpret the complicated tax law and help them to apply the law to their tax returns. This study helped the practitioners since it helped them understand various challenges faced by taxpayers towards voluntary compliance and help them advice their clients accordingly. The study is of importance to the general public since it highlighted various challenges faced by the taxpayers towards compliance and the possible solutions to these challenges. To other researchers the survey is a basis for further research, more so, when seeking to research on enhancing revenue collection through other systems that either supplement or substitute self-assessment system.

1.6 Scope of the Study:

The study surveyed on tax compliance status of Real Estate investors in Mombasa County between the periods 2012 to 2016.

1.7 Basic assumptions of the study:

It was assumed that the respondents would be willing to participate in the study, be co-operative and provide accurate information when responding to the research questions.

1.8 Limitations of the study:

Time constraint was a limiting factor because the study is to be concluded within a short time.

Availability of funds was also a limiting factor to the study since the researcher is self sponsored.

There was no assurance that the respondents will return all the questionnaires duly completed, neither was there a guarantee that those who will be interviewed would respond to all the questions put forward to them comprehensively for fear that it would expose their non-compliance to Kenya Revenue Authority (K.R.A).

To counter these limitations, the researcher took leave from work to make time to interview the respondents and also sought for funding from relatives. The real Estates fear of participation was overcome by explaining to them the intent of the study and issuing the transmittal letter as well as the supervisors contact for verification purposes.

1.9 Delimitations of the study:

The study area, Town centre in Mombasa County had a high concentration of taxpayers falling under the Real Estates category, and a wide variety of business activities. It was also within the convenience of the researcher, this made the process of data collection easy, cheaper and less tedious.

2. LITERATURE REVIEW

2.1 Introduction:

Literature review is a summary of past studies carried out in respect of the topic under investigation. It is on the basis of this review that the research gap is exposed as well as guiding on how research methodology and design is achieved. This chapter covered the concept of Tax compliance, tax compliance models, Factors Affecting Tax Compliance and Conceptual Framework.

2.2 The Concept of Tax Compliance:

Tax compliance is a major problem for many tax authorities and it is not easy task to persuade taxpayers to comply with tax requirements even though tax laws are not always precise (James and Alley 2004).The definition of tax compliance in its most simple form is usually cast in terms of the degree to which taxpayers comply with the tax law (James

2012).However, like many such concepts, the meaning of compliance can be seen as a continuum of definitions. One suggestion is that the degree of non-compliance may be measured in terms of the tax gap. Tax gap represents the difference between the actual revenue collected and the amount that would be collected if there was 100% compliance (James 2012).

The exact meaning of tax compliance has been defined in various ways. For example, Andreoni *et al*,. (2012) defined tax compliance as the taxpayer's willingness to obey tax laws in order to obtain the economy equilibrium of a country. Kirchler (2007) perceived a simpler definition in which tax compliance is defined as the most neutral term to describe taxpayer's willingness to pay their taxes. A wider definition of tax compliance, defined in 2013 by Song and Yarbrough suggested that due to the remarkable aspect of the operation of the tax system in the United States and that it is largely based on self-assessment and voluntary compliance, tax compliance should be defined as taxpayers ability and willingness to comply with tax laws which are determined by ethics, legal environment and other situational factors at a particular time and place. Similarly, tax compliance is also defined by several tax authorities as the ability and willingness of taxpayers to comply with tax laws, declare the correct income in each year and pay the right amount of taxes on time (Internal Revenue Service (IRS), 2009; Australia Tax Office (ATO), 2009; Inland Revenue Board of Malaysia (IRB), 2009). Alm (2005)) defined tax compliance as the reporting of all incomes and payment of all taxes by fulfilling the provisions of laws, regulations and court judgments. According to Mohd *et al* (2011) tax compliance is defined as the taxpayer's willingness to comply with tax laws, declare the correct income, claims the correct deductions, relief and rebates and pays all taxes on time. Allingham and Sandmo (2011) described tax compliance as an issue of „reporting an actual income and also claimed that compliance behavior was influenced by a situation whereby taxpayers have to make a decision under uncertainty i.e. either taxpayers would enjoy tax savings due to under reporting income or have to pay on the undeclared amount at a penalty rate which is higher than they would have paid had the income been fully declared at the correct time.

Another definition of tax compliance is a person's act of filing their tax returns, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority (Mohd *et al*, .2011). Furthermore, tax compliance has also been segregated into two perspectives, namely compliance in terms of administration and compliance in terms of completing (accuracy) the tax returns (Chow, 2004). Tax Compliance in pure administrational terms therefore includes registering or informing tax authorities of status as a taxpayer, submitting a tax return every year (if required) and following the required payment time frames. In contrast, the wider perspective of tax compliance requires a degree of honesty, adequate tax knowledge and capability to use this knowledge, timeliness, accuracy, and adequate records in order to complete the tax returns and associated tax documentation (Mohd *et al*,. 2011). The wider perspective of compliance becomes a major issue in a self-assessment system since the total amount of tax payable is highly dependent on the levels of tax compliance this perspective reveals, although it is inevitable that tax authorities will seek to „influence" the areas taxpayers have influence over determining to reduce the risks of non-compliant behavior they face otherwise e.g. through continuously conducting tax audits of different sorts and other means such as various compliance influencing activities including tax education. Some literature like Allingham and Sandmo (2011), and Andreoni *et al*,. (2012) therefore characterize and explain tax compliance as the output of interrelation among variables including perception of equity, efficiency and incidence (public finance views). Tax enforcement aspects like penalties and the probability of detection also relate to tax compliance while other labor market behavior factors including an individual's wages and tax bracket also contribute to tax compliance (Kirchler, 2007).

2.2.1 Tax Non-Compliance:

Tax non-compliance is defined as failure to comply with tax laws and/or report incorrect income, the act of claiming incorrect deductions, relief and rebates and/or paying the incorrect amount of tax beyond the stipulated time frame (Mohd *et al*, .2011).Non-compliance is also perceived as the failure of a taxpayer to report (correctly) the actual income, claim deductions and rebates and remit the actual amount of tax payable to the tax authority on time (Kirchler, 2007). Taxpayers vary in terms of the opportunities available to them in overstating expenses and understating incomes (Chau and Leung, 2009).Greater tax noncompliance opportunity generally result from self-employment and income sources not subject to withholding taxes. Taxes can be classified into two main types: direct and indirect taxes. Direct taxes mean the burden (incidence) of tax is borne entirely by the entity that pays it, and cannot be passed on to another entity; for example, corporation tax and individual income tax. Indirect taxes are typically the charges that are levied on goods and services (consumptions) for example VAT (Value Added Tax), sales tax, and excise tax and stamp duties. Indirect taxes are not levied on individuals, but on goods and services. Customers indirectly pay this tax in the form of higher prices. For example, it can be said that while purchasing goods from a retail shop, the retail VAT is actually paid by the customer. The retailer eventually passes this tax to the respective authority.

The indirect tax actually raises the price of the goods and the customer's purchase by paying more for that product. Unlike indirect tax, direct taxes are based on 'ability to pay' principle but (by being very obvious to the taxpayer) they sometimes work as a disincentive to work harder and earn more because that would mean paying more tax (Mansor *et al*, 2005).Individuals do not like paying taxes, and they take a variety of actions to reduce their tax liabilities. Some of these actions can be classified as tax avoidance, which is the legal reduction in tax liabilities by practices that take the full advantage of the tax code, such as income splitting and postponement of taxes for example through contribution to a Home Ownership Savings Plan.

The other classification of actions is tax evasion which consists of illegal and intentional actions taken by individuals to reduce their legally due tax obligations. Individuals and firms can evade taxes by underreporting incomes, sales, or wealth, by overstating deductions or by failing to file appropriate tax returns. In every jurisdiction, tax authorities are empowered to collect revenue from taxpayers. Although there are a number of taxpayers who have reported their income and paid their tax liabilities properly, there are a few taxpayers who have not done so. For its part the government must take actions to ensure compliance with tax laws. In Kenya self-Assessment System was introduced in 2011 and the tenets of this system is voluntary compliance. Tax compliance can be divided into two categories namely: - Administrative Compliance: This refers to compliance with the administrative rules of lodging and paying taxes on time. This includes compliance with the reporting requirements, procedure and regulations. Technical Compliance**:** This refers to compliance in the computation of taxes payable in accordance with the technical requirements or provisions of the tax laws and paying the right amount of tax. Decades of empirical work on tax compliance has produced awareness of the complexity of tax compliance and non-compliance globally. (Masinde and Makau, 2010) point out that tax compliance itself is now recognized as multifaceted construct. Many scholars such as Jackson *et al* (2007) have put forward some explanatory variables in analysis of tax compliance behavior.

In the midst of enormous diversity, a notably consistent theme over the past two decades of tax research has focused on identifying the costs, be they material, social or psychological, which would deter would-be evaders and counter the lure of the benefits of evasion. A preoccupation with identifying costs and benefits with the goal of developing a risk profile for tax collection agencies has meant that less attention has been directed towards managing non-compliance once it has occurred (Masinde and Makau 2010). Based on the available literature, the dominant environmental factors currently shaping the performance of revenue administrators in developing countries are globalization, large informal sectors and limited administrative capacity. Tax policy and administrative reforms generally have one or several of the following objectives: Increasing the equity of the tax system, creating an enabling environment for private sector development, Increasing revenue collection or compliance. On the implementation side, the challenge to coordinate policy reforms with parallel reforms in tax administration has rarely been fully addressed yet the menu of administrative reform options has been greatly enriched with new approaches to organizational design, taxpayer services, ICT solutions, human resource incentives and formal anti-corruption strategies. Compliance management is no longer based purely on an enforcement – focused approach, but on a combination of enforcement and enhanced taxpayer services.

The issue of tax compliance is extremely important both to those concerned with the key role the increased tax yields can play in restoring macroeconomic balance and those concerned with tax policy and its effects on the economy in general. The level of tax collection though important is an unsophisticated measure of the effectiveness of tax administration .A more accurate measure is the level of compliance. Facilitating compliance involves such elements as improving services to taxpayers by providing clear instructions, easy to fill forms and assisting and educating them on their duties and obligations. Monitoring compliance requires establishing and maintaining current accounts of taxpayers and management information systems covering both ultimate taxpayers and third party agents such as banks involved in the tax system as well as appropriate and prompt procedures to detect and follow up on non-filers, nil filers and delayed payments. Deterring noncompliance requires establishing both a reasonable risk of detection as well as applying penalties effectively. The ideal approach is to combine these measures so as to maximize their effect on compliance as it were, to move a country from a "low compliance to a high compliance environment"(Masinde and Makau 2010).

2.2.2 iTax System:

iTax system launched in 2011 and implemented by Indian firm Tata, iTax replaces the online system previously used by KRA, which the public has complained about over its inefficiencies. The web-enabled system that seeks to make tax compliance a simple, quick and secure exercise is expected to bring down the cost of tax compliance in logistics, and help reduce interaction between staff and taxpayers, eliminating bribery claims. This is part of KRA's mission to attain global best practices in tax collection, and the taxman intended to benchmark against nations that have fully automated their system, including the US (Business Daily, 2015). iTax is an improvement of a previous online system by KRA called the Integrated Tax Management System (ITMS), rolled out in 2007, which failed to automate taxation and spawned serious customer dissatisfaction. KRA says that most taxpayers are locked out by inefficiencies and bureaucratic system hence iTax.

With the new system, taxpayers will be able to register, file returns, make payments and enquire about their status, while monitoring their accounts in real-time 24 hours a day, from the comfort of their homes or offices. The system will also eliminate rogue agents who swindle taxpayers by keeping outdated electronic registers of tax agents. To further cut down the cost of taxation, taxpayers will be required to fill their returns offline by downloading the returns form, filling it and uploading it at their own convenience. The system is set to integrate more than 30 banks to ensure that most taxpayers are covered (Business Daily, 2015).

Globally, the tax environment is changing rapidly. Tax authorities are being challenged to maintain a modernized and responsive tax administration system. Tax agencies are leveraging on the electronic tax filing (e-filing) system to achieve greater tax administrative and compliance efficiency (Lai et al., 2011). Electronic filing is the modern way of tax authorities interacting with tax payers. Tax practitioners as a group apparently do not see that the conversion to electronic filing offers much to them in terms of return on their investment, considering the cost of software and hardware needed to adopt the e-filing technology (Skillman, 2010). Although many tax practitioners do perceive that electronic filing is an important and improved service; they do not view it as vital in gaining competitive advantage (ACCA, 2012).

According to Ralph (2012), electronic filing is dependent on the use of technology. Technology used in e-filing comprise of computer, internet and software applications. Electronic filing can be measured when the desired outputs are realized. According to Fu et al. (2012), some of the measures of electronic filing should include, reducing life of tax, improving efficiency and reducing errors in procedures, increasing multi-tasking levels of tax officers and facilitating taxpayers in complying with tax regulations. One of the pillars of e-filing is to have a single database which covers all proceedings in relation to taxable activities of the taxpayer, that is, valuation, billing, collection and enforcement. Taking cognizance of the existence and impact of tax operating cost is not a recent phenomenon. It was started in 1776 by Adam Smith's four well-known maxims of good tax practice (equity, certainty, convenience and economy).

2.3 Tax Compliance Models:

In explaining taxpayer's compliance behavior, that is, the reasons why taxpayers comply or do not comply, there are two broad approaches which researchers have used to explain evasion behaviors namely Fiscal Psychology Models and Economic Deterrence Models.

2.3.1 Fiscal Psychology Models:

These theories of tax compliance assume that psychological factors including moral and ethical concerns are also important to taxpayers. Among these theories is the Theory of Planned Behavior which was developed by Ajzen in 2005.

This theory is a successor to the Theory of Reasoned Action of Fishbein and Ajzen (2005), Ajzen and Fishbein (2004) and Ajzen (2004).This theory tries to explain human behavior.

According to this theory, behaviors of the individuals within the society are under the influence of definite factors, originate from certain reasons and emerge in a planned way. The ability to perform a particular behavior depends on the fact that the individual has a purpose towards that behavior (behavioral intention).Behavioral intention in turn depends on three factors that is Attitude towards the behavior, Subjective norms and Perceived behavioral control. These three factors are also under the influence of behavioral beliefs, normative beliefs and control beliefs. The focus of this theory therefore is on the taxpayer's morals and ethics. The theory suggests that a taxpayer may comply even when the probability of detection is low. As opposed to the economic theories that emphasize on increased audits and penalties as solutions to compliance issues, psychological theories lay emphasis on changing individual attitudes towards tax systems.

2.3.2 Economic Deterrence Models:

There are no fully developed economic theories addressing the issue of tax compliance but there are various models which have been developed to address the issue.

These models of tax compliance are based on deterrence theory. Deterrence theory is a theory under criminology and was developed by Becker (2009). This theory is based on the concept that, if the consequence of committing a crime outweighs the benefit of the crime itself, the individual will be deterred from committing the crime. This is founded in the idea that all individuals are aware of the difference between rights and wrong and the consequences associated with wrong or criminal behaviors. Proponents of deterrence theory believe that people choose to obey or violate the law after calculating the gains and consequences of their actions.

Economic Deterrence model, one of the economic based models was developed by Allingham and Sandom (2011) who extended the expected utility model of criminal activity originated by Becker (2006) to the tax arena. This model incorporates the concept of an economically rational taxpayer who will evade taxation as long as the pay-off from evading is greater than the expected cost of being caught. Allingham and Sandmo (2011) proposed a seminal economic deterrence model based on the expected utility function of the taxpayer who evades. This model incorporates several aspects. Firstly, the taxpayer has some level of risk aversion, the more risk averse the taxpayer is, the less likely (s) he is to evade taxes. Secondly, the taxpayer needs to have knowledge regarding the taxation system in order to assess the probability of being detected, and the extent of the penalties that may be incurred upon detection. Under A-S model the taxpayer decides upon the amount of taxes to report to the taxing agency. When making this decision the taxpayer seeks to maximize expected utility which is defined to be the sum of the utility value of each outcome weighted by the probability that the particular outcome occurs. The A-S model shows that the higher probabilities of audit deter underreporting and that a higher rate for the proportional tax leads to lower levels of reported income. The general conclusion of this theory is that compliance depends largely on tax audit and penalty. The implication of the theory is that taxpayers will pay taxes only because of the fear of sanctions.

2.4 Conceptual Framework:

This study conceptualizes that the tax compliance could be affected by compliance cost, perceived opportunity, fines and penalties, tax knowledge and education. The purpose of this study is therefore to test the nature and the strength of these relationships. This study tests the conceptual framework presented in Figure 2.1.

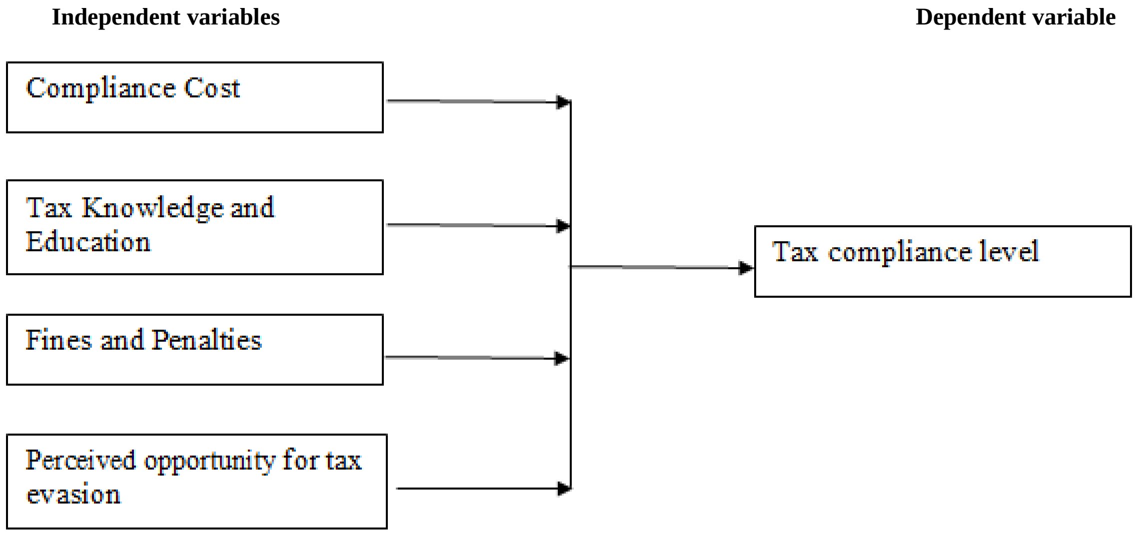

Figure: 2.1: conceptual framework showing the relationship between the variables.

2.4.1 Compliance Cost:

The costs of complying with tax obligations have generated widespread interest among academics, government policy makers and business organizations. Contemporary research in the area was pioneered by Sandford who examined the cost of complying with Valued Added Tax (VAT) and other taxes for taxpayers in the United Kingdom (UK) in the 1970s and 2009s (C Sandford, M Godwin and P Hardwick, 2009). Sandford (2009) defined Tax compliance costs as the costs incurred by taxpayers in meeting the requirements laid on them by the tax law and the revenue authorities. Most published research adheres to the convention established by Sandford and distinguishes between gross compliance costs and net compliance costs.Net compliance costs are defined as the gross compliance costs less tax compliance benefits which include tax deductibility benefits, cash flow benefits, and managerial benefits. Tax deductibility benefits result from the fact that business taxpayers are entitled to tax deductions for some of the compliance costs they incur. Cash flow benefits arise because of the difference between the time when the tax is collected by the taxpayer and the time when it is actually handed over to the tax authorities (B Tran-Nam et al, 2000). Managerial benefits may be derived by the taxpayers, in particular business taxpayers, where the more stringent record keeping requirements imposed by tax compliance result in the production of managerial accounting information available for decision making and other business purposes (McKerchar and Walpole,2006).

Another argument to investigate these compliance costs is that high tax rates and complex tax legislations can induce fraud. Earlier research (Franzoni, 2012) concluded that companies will create a kind of resentment against authorities who impose too high levies and too complex tax systems. This will incentivize (illegal) tax avoiding systems because of the high financial advantages and the low condemnation rates (Franzoni, 2012). In addition, because of the complexity of the system, the companies often need to rely on external tax professionals who by means of sophisticated tax avoidance engineering will minimize tax payments (Franzoni, 2012). Finally, the general introduction of the VAT regime in almost all countries has raised interest in identifying and quantifying the impact of the new system on tax compliance costs (Evans, 2003). Acknowledging the fact that high compliance costs diminish competitiveness of the country in terms of taxation attractiveness, public services have become increasingly interested in ways to simplify their tax legislation systems. Slemrod and Yitzhaki (2013) identified compliance costs as one of the three components of the social costs of taxation. These social costs can be paraphrased as costs incurred by society in the process of transferring purchasing power from the taxpayers to the government. The other elements are administrative costs and deadweight efficiency loss from taxation. Administrative costs are the costs that exist besides the occurrence of compliance costs that are borne by the companies. These costs are cited as costs that the government must also take into account as a public cost to ensure that the tax legislation is obeyed. For example, it obtains the costs to collect taxes and to maintain the system to collect the taxes. These are to some extent substitutable, for example when a country transfers from a system where the tax office calculates the tax owed, to a self- assessment system. As a consequence an increased burden arises on the company. Together, the compliance costs and administrative costs are defined as the operating cost of taxation (Evans, 2001).

Deadweight efficiency loss from taxation can be defined as opportunity costs. If the compliance costs were no longer necessary, they could be used to recruit more staff, acquire additional assets or introduce higher wages for employees (Sandford, Godwin, Hardwick and Slemrod, 2009). In general, there are several possible ways to interpret compliance costs. Firstly, compliance costs can be divided into three parts: time spent, cash expenses and psychological costs. The total time spent contains employee costs (in-house staff) and external costs (fees paid to outside accountants and other advisors). Hours by internal staff can be converted in expenses by means of an average hour rate. The psychological costs refer to the effects upon a taxpayer having to deal with tax affairs, for example mental stress. However, these costs are difficult to measure. Therefore, they are disregarded in most investigations. These compliance costs include costs that are incurred by a company, but are beyond the control of its management (Hijattulah and Pope, 2008). Secondly, another distinction can be made between internal and external costs (Blumenthal and Slemrod, 2013). Internal costs are generated by the accounting and administration department of the company. Internal staff will prepare all information and documents for the fiscal authorities and consult external advisors when necessary. External costs are generated by the services from lawyers, accountants and other advisors. These external costs are much easier to identify and to quantify. Internal costs are more difficult to quantify since it involves subjective estimations of the time spent on different tax activities. Some studies have revealed that in most companies the internal compliance costs are substantially more important than the external (Hijattulah and Pope, 2008).

2.4.2 Tax Knowledge and Education:

The influence of knowledge on compliance behaviors has been assessed in various researches. Knowledge as one of the factors in compliance is related to the taxpayers' ability to understand taxation laws, and their willingness to comply. The aspect of knowledge that relates to compliance is the general understanding about taxation regulations and information pertaining to the opportunity to evade tax (Kasipillai, Norhani, and Noor, 2003). Taxation knowledge is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the money collected is spent by the government (Mohd, 2010). Attitude towards tax compliance can be improved through the enhancement of taxation knowledge. When a taxpayer has a positive attitude towards tax, this will reduce his or her inclination to evade tax payment (Eriksen & Fallan, 2013). Self assessment system (SAS) requires taxpayers to understand all the laws and regulations that govern taxation. This is necessary because taxpayers will have to calculate themselves the amount of tax they need to pay and make the payment (Kasipillai, 2003). Taxpayers will readily accept any new system introduced, like the SAS, if they have ample knowledge to understand the system. Thus, education programs organized by the tax authority or other public education institutions are needed to enhance taxpayers' ability to understand Self assessment system and to increase their confidence in fulfilling their responsibilities as taxpayers (Mohani, 2001).

Greater education is directly linked to a likelihood of compliance. Educated taxpayers may be aware of non compliance opportunities, but their potentially better understanding of the tax system and their higher level of moral development promotes a more favorable taxpayer attitude and therefore greater compliance (Chan et. al. 2000). Chan et al. also suggested that those with a higher education level are more likely to have a higher level of moral development and higher level attitudes toward compliance and thus will tend to comply more. One of the measures to increase voluntary compliance is by assuring that taxpayers have a certain level of qualifications, ability and confidence to exercise their tax responsibility (Mohani, 2001). Taxpayers who have attended a tax course would be expected to have better tax knowledge and tax compliance attitude in comparison with taxpayers who have never attended a tax course (Mohd, 2010). Hite and Hasseldine (2001) highlighted that tax authority need to emphasize teaching tax courses because of impact of education on compliance.

2.4.3 Fines and Penalties:

Fines and penalty rates may substitute each other due to their multiplicative linkages as long as neither of them is set to zero (Kirchler et al 2007). Higher fines simply make evading taxes more hazardous for taxpayers and should deter them from evasion. Empirically, the deterrent effect of fines could not always be supported. The observed effects were weaker than expected and some studies even suggest that an increase of penalties can have undesirable effect and result in more tax avoidance (Kirchler et al, (2007). Alm et al., (2011) supports the evidence that fines do affect tax compliance though the impact was virtually zero. Friedland *et al*,.(2013) compliance was strongly affected by the amount of fines than by audit probabilities. Several studies however found no support for the deterring effects of fines since it was weak (Andreoni, 2012).Some of the findings suggests that a policy based on deterrence is effective only in combination with frequent Audits (Kirchler et al., 2007).

From the tax administration viewpoint, researchers have concluded that compliance could be influenced by educating taxpayers of their social responsibilities to pay and thus their intention would be to comply. As a behavior problem, tax compliance depends on the cooperation of the public. There are greater gains in assisting compliant taxpayers meet their fiscal obligations rather than spending more resources pursuing the minority of no-compliers. Assisting tax payers by improving the flow and quality of information or education them (e.g., TV campaigns) in to becoming more responsible citizens has the potential to yield greater revenue than if it were spent on enforcement activities. A theoretical economic model introduced by Allingham and Sandmo (2011) has clearly indicated that penalties as well as audit probability have an impact on tax compliance. The higher the penalty and the potential audit probability the greater discouragement for potential tax evasion. The most extreme penalties will have no effect, if it is common knowledge that audits virtually do not occur. The increasing tax avoidance and tax resistance due to an increase of fines puts into question how fines should be assessed to be effective. On the one hand fines should be high enough to decrease the expected value of tax evasion and to assure its deterrent effect on tax payers. On the other hand, if fines are too high, the tax system would be perceived as unjust and unfair and taxpayers would use any possibility to legally avoid taxes (Kirchler et al., 2007).In Kenya for instance, the maximum penalty for tax evasion is 20% of the evaded amount (Sec 72 D IT Act, Cap 470).In summary evidence suggests fines have mixed impact on tax compliance, the study hypothesize that fines have no significant positive effect on tax compliance.

2.4.4 Perceived Opportunity for tax evasion:

Business owners are often mentioned as a high-risk group in terms of tax compliance because their opportunities to evade are high. Opportunity has often been documented as a major explanatory factor in non-compliance (Webley, 2004). In particular, if incomes are not subject to automated third-party reporting, or if taxes are not withheld at source (e.g. in cases of receiving gross incomes or cash payments), opportunities to evade taxes exist (Williams and Round, 2009). The link between opportunity and non-compliance seems to have at least two different facets. First, in cases where people do not deliberately capitalize on opportunities, the specific circumstances leading to evasion opportunities might still lead to non-compliance. Opportunities usually come about when tax filings are not entirely automated. Through the lack of automation tax filing procedures are more likely to become error prone even without intent to capitalize on the entailed opportunities. Consequently, opportunities may lead to an increase in intended as well as unintended non-compliance. For instance, Robben et al. (2010) show that an experimentally induced opportunity to cheat (more possibilities to deduct non-deductible expenses) increased non-compliance regardless of whether the participants actually intended to be non-compliant or not.

Second, assuming that people are willing to capitalize on opportunities, they are able to do so only if the opportunities are recognized in the first place. However, opportunities to evade often tend to remain unnoticed. While many taxpayers perceive opportunities for evading small amounts, only a minority perceives opportunities for evading larger amounts (Antonides and Robben, 2010). Such failure to perceive opportunities even persists in laboratory experiments explicitly manipulating opportunity. Whereas controlling for intended evasion annihilated the effect of opportunity on evasion, simultaneously controlling for intended evasion and perceived opportunity re-established the main effect of opportunity on non-compliance (Robben et al., 2010). Indeed, it has been shown that those actually evading perceive increased opportunities to do so (Ashby et al., 2009). Overall, actual opportunities can increase both intentional and unintentional evasion. Although such a distinction is theoretically and practically meaningful, it is difficult to determine whether filing errors were intentional or not. For example, in a study by Slemrod et al. (2001), taxpayers were informed that their tax files would be closely examined. Those with considerable opportunities to evade, including small business owners, reacted to this message by increasing their tax payments significantly. Even though this might indicate severe tax evasion – as assumed by Slemrod et al. (2001) increased tax payments in response to the prospect of being audited may also originate from increased willingness to avoid errors. Those taxpayers facing high opportunities for evasion might feel less certain about how to pay their taxes correctly (Ahmed and Braithwaite, 2005), and consequently, threats may also elicit partly unintentional over-reporting; just to be on the safe side. To conclude, opportunity is a key constituent of small business tax compliance and its role is moderated by its perceptual correlates. Given the opportunity to evade, those unwilling to evade may become involuntarily non-compliant and those willing to evade may fail to perceive the chance to do so. In order to determine the actual effect of opportunity, it is necessary to control for compliance intention as well as opportunity perception.

2.5 Summary of the study:

Findings show that the majority of the property owned by real estate developers in Mombasa County is for residential use. This suggests that the majority of residents in Mombasa County they prefer residential properties more than commercial and industrial. The findings indicate that most the real estate developers in Mombasa County do leasing and renting of property. This is evident since the population of Mombasa County is growing very fast hence demand for property is growing at a very high rate. This is the more reason as to why many are investing more into residential property than other properties. Findings have it that the majority of the respondents have been in business for many years. This is because in one decade ago there was no high demand like it is now. Due to demand, a lot of people have resorted to venture into the business to supply and meet the high demand in the market (Mombasa County). Further the findings denote that many real estate investors started their business with the help of personal savings. Due to the growth of Mombasa County many resorted to use their savings to venture into real estate investment.

Findings deduce that the majority enter into real estate business because of the rise in property investment. The findings indicate that there is no respondent who used less than Kshs. 20,000 as the startup capital, thus implying that many real estate investors used more than eight thousand as initial capitals to invest. Mombasa County is not expensive compared to other big counties like Nairobi, Kisumu and Eldoret. The study findings also indicate that most real estate investments are owned by owners. That is they are owned by one personal per property. There are no many partners in the industry.

It further indicates that there was growth immensely since 2007 and that is why so many have ventured into the business. The findings also note that increase in lease charges has led to increase in real estate business. Findings indicate that the increase in clientele has motivated many to venture into real estate in Mombasa County. Findings indicates that the real estate investment in Mombasa County is in demand hence there is growth. Based on the review of the literature and the past studies, past studies seem to have concentrated much on the examination of the influence of Economic conditions on tax compliance cost and not how best proper regulation be implemented to ensure well being of the Kenyan economy.

2.6 Research gaps:

The study touches on the Tax enforcement aspects like penalties and the probability of detection labor market behavior factors including an individual's wages, tax bracket but no effective Tax policy and administrative reforms generally to: Increase the equity of the tax system, creating an enabling environment for private sector development, Increasing revenue collection or compliance strategies. This study seek to explore whether tax compliance plays any role in enhancing or developing the private sector in the real estate sector in Kenya.

3. RESEARCH METHODOLOGY

3.1 Introduction:

This chapter describes the research design and research methodology that was employed in this study. This is set out under the sub-headings containing research study site, research design, target population, sampling for the study, data collection instruments and procedure, and finally, the data analysis and presentation methods to be used in the study.

3.2 Study Area:

The study was conducted in Nyali Sub County which is located in Mombasa County. The area is selected because it is one of the fastest growing areas in Kenya in terms of population and economic activities especially in real estate.

3.3 Research Design:

A research design is a plan, structure and strategy conceived in order to obtain answers to research questions and control variables. It helps to control the experimental, extraneous and error variables of a particular research problem being investigated (Creswell, 2005). The study employed qualitative and quantitative research design that enabled it to collect requisite information about the factors that affect the tax compliance among real estate investors. Such a design is a systematic empirical inquiry in which the researcher does not have direct control of independent variables because they cannot be manipulated (Creswell, 2005). Inferences about relations among variables were made without direct intervention from concomitant variation of independent and dependent variables (Creswell, 2005). As this design does not allow the researcher to manipulate either the independent variables or the research setting, it is apt, because of its higher external validity and less cost. This allowed the study to be completed within the constraints imposed by limited time and financial resources.

3.4 Target Population:

The target population consists of all the real estate investors within Nyali Sub County during the study period. The study got information from the owners and managers of each real estate. According to Mombasa Municipal council records, there are 800 registered real estate investors in Nyali as at August, 2016.

Table 3.1 Target Population in Real Estate Investors within Nyali

Types of estates	Target population	Target percentage
Small Scale Estate investors	250	31.25%
Medium Scale Estate Investors	550	68.75%
Total	**800**	**100**

Kenya Revenue Authority, 2011

3.5 Sample Size:

According to (Orodho 2002), a sample is a small portion of a target population. Sampling means selecting a given number of subjects from a defined population as representative of that population, such that any statements made about the sample are true of the population. It was however agreed that the larger the sample the smaller the sampling error. Gay (1992) suggests that a sample of at least 10% of the target population is representative. The researcher therefore randomly selected 800 registered real estate investors in Nyali as at August, 2016.

Table 3.2 Sample size

Types of estates	Target population	Sample size (10%)
Small Scale Estate investors	250	25
Medium Scale Estate Investors	550	55
Total	**800**	**80**

3.6 Sampling Procedure:

Collection of data from all the real estate investors in the town was not feasible due to constraints imposed by limited time and financial resources. Thus, a representative sample was used in the study. The study employed simple random sampling technique in the selection of the sample. With this sampling technique, each member of the population has an equal chance of being included in the sample and each sample of a particular size has the same probability of being chosen.

3.7 Data Collection:

3.7.1 Nature and Source of Data:

This study used both primary and secondary data. Information was obtained from the real estate investors using questionnaires and observation to generate primary data, while the secondary data was obtained from existing databases/literature such as KRA revenue reports and Kenya National Bureau of Statistics reports. The data collected included information on real estate sector, tax compliance in this sector, biographical information of the respondents, proxy variables representing cost of tax compliance, tax knowledge and education, perceived opportunity for tax evasion and fines and penalties.

Primary data was collected mainly through administration of pre-tested structured Likert scale questionnaires in the field. This is an ideal tool for use since it reduces the incidence of missing data and low rate of return from the respondents, as the researcher and two research assistants personally administer the questionnaires to the real estate investors. The Structured questionnaires was used to ensure that all respondents answer the same set of questions. Questions asked were in form of five point Likert type, closed-ended. This ensured easy handling and amenability to statistical analysis of closed-ended questions combined with the free-flowing opinions from open-ended questions.

3.7.2 Methods of Data Collection:

A combination of data collection techniques will be employed in the study to gather both primary and secondary data which is both qualitative and quantitative in nature.

3.8 Validity of Instruments:

Instrument validity refers to accuracy, meaningfulness and technical soundness of the research instrument; Mugenda and Mugenda (1999). The questionnaire guide were said to be valid when they actually measure the intended parameters; Borg and Gall, (1989). The researcher enhanced the validity of the instrument by subjecting them to the supervisor appraisal and also carried out a field pre-test through a pilot of a few respondents. The researcher then made adjustment of the tools to improve validity.

3.9 Reliability of Instruments:

Reliability is the extent to which the results were consistent over time and were accurate representation of the total population of the study.

Instrument reliability is the dependability and trustworthiness of the test. This was measured through a test-retest technique where the questionnaire administered to a group of individuals with similar characteristics as the actual sample. The test was then repeated after one week.

3.10 Data Analysis and Presentation:

After all the data were collected, data cleaning were done in order to determine inaccurate, incomplete, or unreasonable data and then improve the quality through correction of detected errors and omissions. After data cleaning, the data were coded and entered in the computer for analysis. The research yielded data that required both qualitative and quantitative analysis. Quantitative analysis entails analyzing numbers about a situation by choosing specific aspects of that situation. Descriptive statistics were used to analyze the quantitative data. The statistics used included frequency counts, means and percentages. Quantitative data analysis required the use of a computer spreadsheet, and for this reason the Statistical Package for Social Sciences (SPSS) is used. On the other hand, qualitative analysis entails analyzing in words by collecting data, recording peoples' experiences not selecting any pre-chosen aspect. The qualitative data to be obtained in this study were analyzed by organizing them into similar themes and tallying the number of similar responses. The results of data analysis were presented using frequency distribution tables.

4. PRESENTATION AND DISCUSSION

4.1 Introduction:

This chapter presents results of the study based on the formulated objectives and hypotheses as presented in chapter one. The chapter analyzes the variables involved in the study and estimate the conceptual model described in chapter two. In the first two sections data description and analysis is presented. The model estimation and the analysis of the results are then discussed. Finally concluding remarks are made. Data description involves a discussion on the sources of data and definitions of the dependent and the independent variables. Data collected was quantitatively analyzed and presented in tables.

4.2 Demographic Information:

Demographic information shows the characteristics of the elements in the sample size: As such the researcher sought to establish the general information of the respondents, which forms the basis under which the interpretations are made.

4.2.1 Gender of the respondents:

Demographic factor one analyzed the gender of the respondents. This information was necessary to enable the researcher to obtain information on whether the respondents were either male or female. Fifty five percent (55.4%) of the respondents were male whereas forty four percent (44.6%) were female.

Table 4.1 Gender of the respondents

Gender	Frequency	Percentage
Male	150	55.4
Female	121	44.6
Total	**271**	**100**

4.2.2 Age brackets of the respondents

Demographic factor 2 shows the age brackets of respondents, (25.8%) of the respondents are between 20-30 years of age, (27.7%) are between 30-40 years, (15.5%) are in the 40-50 age bracket. Respondents between 50-60 years are (19.9%) and those above 60 years of age are fifteen point one percent (11.1%). This result illustrates that most of the real estate investors are generally above 40 years.

Table 4.2: Age bracket of respondents

Age of the respondents	Frequency	Percentage
20-30 Years	70	25.8
30-40 Years	75	27.7
40-50 years	42	15.5
50-60 years	54	19.9
Above 60 years	30	11.1
Total	**271**	**100**

4.2.3 Education level of the respondents:

Demographic factor 3 examines the academic qualifications of the respondents. The information is necessary to enable the researcher to know whether the respondents are educated or illiterate. It reflects the academic qualifications of the respondents. Thirty three point two percent (33.2%) have a high school certificate; Thirty six point nine percent (36.9%) have a Certificate/diploma, eighteen point four percent (18.4%) hold a Degree/Professional and eleven point four percent (11.4%) have a post graduate qualification. The study indicates that majority of respondents in the study area are fairly educated.

Table 4.3: Age Education level of the respondents

Education level of the respondents	Frequency	Percentage
High school certificate	90	33.2
Diploma	100	36.9
Degree	50	18.4
Masters	31	11.4
Total	**271**	**100**

4.3 Information about Real Estates:

4.3.1Operational years:

Research findings on information about Real Estates revealed that majority of the estates have been in operation for between 6-10 years (47.6%) followed by those that have been in operation for 11-20 years (24.7%),0-5 years (15.1%) and estates that have been in operation for over 20 years (12.5%). Findings on the annual turnover affirmed that the turnover below 5 million was sixty one point six percent 61.6% whereas turnover between 5-10 million was twenty four point four percent 24.4% .

Table 4.4 Operational Years

Years in operation	Frequency	Percent
0-5	41	15.1
6-10	129	47.6
11-20	67	24.7
Over 20	34	12.5
Total	**271**	**100**

4.3.2 Annual Turnover:

In addition, annual turnover between 11-15 million was eight point one percent 8.1% and annual turnover between 16-20 million was four point two percent 4.2%. Annual turnover above 21 million was one point eight percent 1.8% .The results reveal that most of the real estate investors have their annual turnover below 5 million.

Table 4.5 Annual Turnover

Annual turnover	Frequency	percent
Below 5 million	167	61.6
5-10 million	66	24.4
11-15 million	22	8.1
16-20 million	11	4.1
Over 21 million	5	1.8
Total	**271**	**100**

4.4 Tax characteristics:

Tax characteristics were inquired from respondents. The use of E-filling was also inquired from the respondents. Majority of the respondents were found to have never used E-filling as shown by fifty five percent (55%) while those who had used E-filling were forty five percent (45%). Respondents found to be using E-filling have been using it between 0-1 years at fifty five point seven percent (55.7%),between 1-2 years twenty five point four percent (25.4%) and those who have used E-filling for between 2-3 years are thirteen point nine percent (13.9%) while those having filed over 3 years are five percent (5%). Respondents found to have attended formal taxation course organized by Kenya Revenue Authority or university or any other institution were twenty six point two percent (26.2%) against seventy three point eight percent (73.8%) who have never attended any taxation course. In relation to being audited, majority of respondents seventy eight point six (78.6%) have never been audited while only twenty one point four percent (24.1) have been audited. Among those who have been audited, sixty nine percent (69%) have been audited between 0-1 times whereas thirty one percent (31%) have been audited 2-3 times. Findings further reveal that respondents who have been penalized by KRA because of not filling a tax return are seventeen percent (17%) while those that have never been penalized are eighty three percent (83%).On matters pertaining filling of tax returns, fourteen point one (14.1%) percent of the respondents have been penalized by KRA because of late filing of returns whereas a majority eighty five point nine (85.9%) have never been penalized. In relation to income declaration, (80.8%) of the respondents were involved in under reporting of income whereas (19.2%) declared the correct income. The research also established that (91.9%) 35 of the respondents were involved in over claiming deductions whereas (8.9%) gave the accurate claim of deductions.

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Table 4.6 Tax characteristics

		Frequenc	Percent
Have you ever used E-filling	Yes	122	45
	No	149	**55**
	Total	**271**	**100**
If yes how long have you been using E-filling to file your tax returns	0-1 years	68	**55.7**
	1-2 years	31	**25.4**
	2-3 years	17	**13.9**
	Over 3 years	6	**5.0**
	Total	**122**	**100**
Have you ever attended any formal taxation course organized by KRA or university or any other	Yes	71	**26.2**
	No	200	**73.8**
	Total	**271**	**100**
Have you ever been audited by KRA	Yes	58	**21.4**
	No	213	**78.6**
	Total	**271**	**100**
If yes how many times	0-1	40	**69**
	2-3	18	**31**
Have you ever been penalized by KRA as a result			
Not filling a tax return	Yes	46	**17**
	No	225	**83**
	Total	**271**	**100**
Late filing of tax	Yes	38	**14.1**
	No	233	**85.9**
	Total	**271**	**100**
Have you ever engaged in the following:			
Under reporting income	Yes	52	**19.2**
	No	219	**80.8**
	Total	**271**	**100**
Over claiming deductions	Yes	24	**8.9**
	No	247	**91.1**
	Total	**271**	**100**

4.5 Tax compliance level:

The results in table 4.4 reveal that most of real estate owners do not file their tax returns on time (mean = 2.9). They also do not pay the right amount of taxes on time (mean = 2.71). These results indicate low levels of tax compliance among the real estate investors. From the above findings, monitoring compliance requires establishing and maintaining current accounts of taxpayers and management information systems covering both ultimate taxpayers and third party agents such as banks or tax consultants involved in the tax system as well as appropriate and prompt procedures to detect and follow up on non-filers, nil filers and delayed payments. Such measures require establishing both a reasonable risk of detection as well as applying penalties effectively. The ideal approach is to combine these measures so as to maximize their effect on compliance as it were, to move a country from a “low compliance to a high compliance environment” (Masinde and Makau , 2010).

Table 4.7: Tax Compliance level

	Mean	Std.	Skewness	Kurtosis
The business files its tax returns on time	2.9	2.339	0.735	1.523
The business pays the right amount of taxes on time	2.71	0.263	-1.841	2.76

4.6 Tax Compliance Cost:

Findings on tax compliance cost shows that respondents were satisfactory on the cost of filling a tax return (mean=2.95) which confirms that the respondents agreed that the cost of filling a tax return is fair, also respondents believe the cost of hiring a tax agent is fair (mean= 2.87). Similarly, the cost of travelling in order to fill a return is fair (mean=3.46).

Table 4.8Tax compliance Cost

	Mean	Std.	Skewness	Kurtosis
How do you rate the cost of filing a tax return	2.95	1.343	0.178	-1.401
How do you rate the cost of hiring a tax agent	2.87	1.414	0.343	-1.226
How do you find the cost of travelling in order to file a return	3.46	1.03	-0.344	-0.422

4.7 Fines and Penalties:

Findings on Fines and Penalties reveal that the enforcement is not very strong (mean=3.37), respondents were not certain on whether the penalty is lower than their tax saving due to not complying with tax laws (mean=3.08).Finally, respondents seemed unsure on whether serious enforcement and penalty by the KRA may result if they do not comply (mean=3.06).

Table 4.9 Fines and Penalties

	Mean	Std. Dev	Skewness	Kurtosis
The penalty rates are very low and I can afford to pay the penalty	3.21	1.185	0.016	-1.151
The enforcement is very weak	3.37	1.298	-0.323	-1.004
I believe that the penalty is lower than my tax saving due to not complying with tax laws	3.08	1.182	-0.077	-1.143
Serious enforcement and penalty by the KRA may result if I do not comply	3.06	1.389	-0.006	-1.219
Fines and Penalties	3.18	0.89536	0.59	-0.058

4.8 Perceived Opportunity for Tax Evasion:

Regarding findings on Perceived opportunity for tax evasion in table 4.5, respondents agreed that since supporting documents do not need to be sent to the KRA, they can manipulate the figure in the tax return(mean =4.27), respondents were not certain if they are detected not reporting the exact income, that the tax authority is tolerant towards the offence and most probably it will escape without any punishment (mean=2.78), respondents disagreed that the tax authority has limited capability to investigate all income reported to them so they have an opportunity not to report their exact income(mean=2.4) and they were uncertain on the probabilities of being detected by the tax authority for not declaring the exact income that they receive (mean=2.74).In general, findings on perceived opportunity for tax evasion was found to be (mean=3.126)

Table 4.10 Perceived opportunity for tax evasion

	Mean	Std. Dev	Skewness	Kurtosis
Since the supporting documents do not need to be sent to the KRA,I can manipulate the figure in the tax return	4.27	0.788	-1.348	2.778
If detected not reporting my exact income, I believe that the tax authority is tolerant towards my offence and most probably it will escape without any punishment	2.78	1.417	0.037	-1.452
I believe the tax authority has limited capability to investigate all income reported to them so I have an opportunity not to report my exact income	2.4	1.362	0.473	1.078
I believe that the probabilities of being detected by the tax authority for not declaring the exact income that I receive are low	2.74	1.317	0.121	-1.239
Tax evasion	3.126	0.93536	0.195	-1.242

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4.9 Tax Knowledge and Education:

Further, tax knowledge and education was inquired from the respondents. From the study results, respondents are not certain on how to declare actual income received from all sources to the tax authority (mean=2.77). Also, respondents are not certain on how to keep records/documents pertaining to income and expenditure for a period of seven years after submission of the tax return (mean=2.62) and they seem not to understand that they should pay tax due within the prescribed period from the date of issue of the notice of assessment or within the stipulated period (mean=2.93).It was revealed that respondents are not very sure that they should obtain a tax payer identification pin number (mean=2.83). Further, respondents seem not to know which income should be included or excluded in determining the taxable income (mean=2.51). Generally tax knowledge and education was (mean=2.7336).

Table 4.11 Tax knowledge and Education

	Mean	Std. Deviation	Skewness	Kurtosi
I know how to declare actual income received from all sources to the tax authority	2.77	1.137	0.132	-1.126
I know how to keep records/documents pertaining to income and expenditure for a period of seven years after submission of the tax return	2.62	1.229	0.368	-0.98
I understand that I should pay taxes due within the prescribed period from the date of issue of the Notice of Assessment or within the stipulated period	2.93	1.393	0.134	-1.321
I know I should obtain a tax payer identification pin number	2.83	1.384	0.149	-1.321
I know which income should be included or excluded in determining the taxable income	2.51	1.374	0.754	-0.723
Tax knowledge and Education	2.7336	1.03738	0.49	-0.809

4.10 Correlation Statistics:

Correlation statistics is a method of assessing the relationship between variables/factors. To be precise, it measures the extent of association between the ordering of two random variables although, a significant correlation does not necessarily indicate causality but rather a common linkage in a sequence of events. Thus, the study analyzed the relationships that are inherent among the independent and dependent variables as well as among the independent variables/ factors. The results regarding this were summarized and presented in table 4.12 Pearson Correlations results in table 4.11 showed that tax knowledge and education was positively and significantly correlated to tax compliance ($r=0.675$, $\rho<0.05$). Thus tax knowledge and education had 67.5% positive relationship with tax compliance. Tax fines and penalties was the second component to be positively related with tax compliance ($r = 0.710$, $\rho<0.05$) an indication that tax fines and penalties had 71% significant positive relationship with tax compliance. Perceived opportunity for tax evasion was significantly associated with tax compliance as shown by($r = -0.269$, $\rho<0.05$) implying that perceived opportunity for tax evasion had a 26.9% negative relationship with tax compliance. Finally, tax compliance cost was significantly positively correlated to tax compliance ($r=-0.613$, $\rho<0.05$).Therefore, Tax compliance cost had 61.3% negative relationship with tax compliance.

Table 4.12 Correlation Statistics

	Level of Tax compliance	Tax compliance cost	Tax Knowledge and education	Tax fines and penalties	Perceived opportunity for tax evasion
Level of Tax compliance	1				
	0				
Tax compliance cost	-.613**	1			
	0				

Tax Knowledge and education	.675**	.664**	1		
	0	0			
Tax fines and penalties	.710**	.488**	.513**	1	
	0	0	0		
Perceived opportunity for tax evasion	-.269**	.199**	.262**	.239**	1
	0	0.001	0	0	

4.11 Discussion of the findings:

As stated by Hypothesis 1 that tax compliance cost has no significant effect on tax compliance level, research findings show inconsistency with the hypothesis hence, compliance cost was negatively correlated to tax compliance level (coefficient estimate ($\beta 1$ = -0.317, p value =0.000). High compliance cost has been found to diminish the competitiveness of the country in terms of taxation attractiveness thus tax authorities are interested in making the tax legislations simpler in order to avoid this situation. This study finding is in agreement with Slemrod and Yitzhaki (1996) that compliance cost is one of the three elements of social costs of taxation which are incurred when purchasing power is transferred from the taxpayers to the government. As Hijattulah and Pope (2008) argue compliance costs include costs that are incurred by a company, but are beyond the control of its management hence tax compliance cost is likely to affect tax compliance in the real estate sector. In terms of internal and external costs, (Blumenthal and Slemrod, 1996) argue that Internal costs are generated by the accounting and administration department of the company who will prepare all the required information by the fiscal authorities and consult when it is deemed necessary. External costs are generated from the service of lawyers, accountants and other advisors and are easier to identify and quantify as compared to the internal costs, these factors contribute to compliance cost and affect tax compliance by real estate owners.

Hypothesis 2 states that tax knowledge and education has no significant effect on tax compliance. Research findings are not in agreement with the hypothesis (coefficient estimates ($\beta 2$ = 0.331, p value =0.000).A high level of tax knowledge and education contributes immensely to tax compliance. This in agreement with studies by (Kasipillai, Norhani, and Noor, 2003) that knowledge relates to compliance due to its effect on understanding about taxation regulations and information pertaining to the opportunity to evade tax. A study by (Mohd, 2010) asserts that tax knowledge is necessary to increase public awareness on taxation rules and the role of taxation in national development. Once individuals have the knowledge pertaining the importance of taxation, they will be influenced to comply without any enforcements or pressure on them. In addition attitude towards taxation can also be improved through taxation knowledge, thus when a taxpayer has a positive attitude toward tax, this may influence him or her to comply (Eriksen&Fallan, 1996). Education programs organized by the tax authority or other public education institutions are needed to enhance taxpayers' ability to understand Self assessment system since it involves calculation of amount of tax needed to be paid. If tax knowledge is enhanced tax payers will readily accept forms of payment of tax like the SAS (Self Assessment system). (Chan et. al. 2000) argues that greater education leads to high compliance since individuals who are well educated understand well the tax system, have high levels of moral development and thus they are highly likely to comply. Findings from the tax administration view point revealed that educating taxpayers on their social responsibility to pay tax would in turn influence tax payers to comply with the payment of tax. Therefore, assisting taxpayers by ensuring proper flow of quality information through media and educating them results in high compliance in paying tax hence potential to yield greater revenue than if it were spent on enforcement activities.

Hypothesis 3 states that tax fines and penalties have no significant effect on tax compliance. Research findings are not in agreement with the hypothesis since fines and penalties has coefficient estimate ($\beta 3$ = 0.111, p value =0.021), hence hypothesis 3 does not hold. Higher fines simply reduce the cases of tax evasion thus encouraging tax compliance. This in agreement with studies by Friedland et al. (1978) that compliance was strongly affected by the amount of fines than by audit probabilities. Studies by Allingham and Sandmo (1972) indicate that penalties as well as audit probability have an effect on tax compliance, thus the higher the penalty and the potential audit probability the greater discouragement for potential tax evasion.

Hypothesis 4 states that perceived opportunity for tax evasion has no significant effect on tax compliance. Research findings show inconsistency with the hypothesis; hence perceived opportunity for tax evasion was correlated to tax compliance, (coefficient estimates ($\beta 4$ = - 0.194, p value =0.000). Opportunities to evade tax may lead to an increase in intended as well as unintended non-compliance. The study findings are in agreement with Robben et al. (1990b) that an experimentally induced opportunity to cheat increased non-compliance regardless of whether the participants actually intended to be non-compliant or not. (Antonides and Robben, 1995) assert that many taxpayers perceive opportunities for evading small amounts while only a minority perceive opportunities for evading larger amounts. The study findings are also in agreement with (Slemrod et al. (2001) in a study where taxpayers were informed that their tax files would be closely examined. Small business owners who had an opportunity to evade payment of tax reacted to this message by increasing their tax payment in order to avoid errors. This confirms that those taxpayers facing high opportunities for evasion might feel less certain about how to pay their taxes correctly. Consequently, threats may also elicit partly unintentional over-reporting; just to be on the safe side (Ahmed and Braithwaite, 2005). It is therefore noted that opportunity for tax evasion is a key constituent of Real Estate investors‟ tax compliance.

5. SUMMARY OF FINDINGS, CONCLUSION AND RECCOMENDATIONS

5.1 Introduction:

The general objective of this study is to analyze the factors affecting tax compliance in real estate sector in Mombasa Kenya. The target population consists of all the real estate investors within Mombasa Town during the study period; According to Mombasa Municipal council records, there are 800 registered Real Estate investors in Mombasa town as at December, 2012.The study also made inference on the hypothesis that compliance cost, tax knowledge and education, fines and penalties and perceived opportunity for tax evasion have no significant effect on tax compliance level.

5.2 Summary of findings:

Findings on gender revealed that there are more male than females among the respondents indicating that more men than female are real estate investors. It was also affirmed that majority of the respondents were between the age bracket of 30-40 years and they. It was also brought to light that majority of respondents were fairly educated, those with a diploma contributing the highest percentage followed by those with an undergraduate degree affirming that there were moderate levels of literacy among the respondents. Findings on information about the real estate's affirmed that majority of the estates have been in operation for between 6-10 years confirming the recent boom in the sector. In terms of annual turnover, majority of the estates have a turnover below 5 million. Findings on tax characteristics acknowledges that the use of E-filling was unknown to most of the respondents and majority of the respondents have never been audited as compared to those who have been audited and a small percentage of the respondents have attended a formal taxation course organized by KRA or university. The study found that compliance levels among real estate investors is low. There is therefore a need for tax authorities and the government to come up with strategies to effectively monitor this category of taxpayers with a view of enhancing compliance levels. On matters pertaining being penalized by KRA as a result of not filing tax returns, majority of the respondents have not been penalized. The study also found out that most of the respondents under reported their income and over claimed deductions. A determination of the effect of compliance cost on tax compliance level revealed a strong negative correlation meaning that compliance cost has a significant effect on the level of tax compliance. This means that higher compliance costs will reduce tax compliance levels. The study also examined the effect of tax knowledge and education on tax compliance level. The findings show a strong positive relationship between the two implying that enhanced knowledge on taxation will in turn enhance tax compliance. An assessment of the effect of fines and penalties on tax compliance levels revealed that there is a significant positive relationship between them. This implies that an effective use and enforcement of fines and penalties on tax offenders will enhance levels of tax compliance. The study having evaluated the effect of perceived opportunity for tax evasion on tax compliance level concluded that there is a negative relationship between the two implying that a perceived opportunity for tax evasion will lead to lower levels of tax compliance.

5.3 Conclusion:

These study findings provide direct evidence that tax compliance cost is a contributory factor in tax compliance, and an indication of its magnitude effect. From the study findings there is enough proof to conclude that tax compliance cost is associated with high levels of tax compliance. The study also provides some preliminary evidence that fines and penalties play a vital role in improving tax compliance. Specifically, for a tax system with fair tax rates of fines and penalties, tax compliance is likely to improve. The study results also inferred that perceived opportunity for tax evasion has a significant effect on tax compliance. This is because through opportunity, induced opportunity to cheat increased non-compliance regardless of whether the participants actually intended to be non-compliant or not. Finally, the study concludes that tax knowledge and education has a significant effect on tax compliance. It is therefore prudent for the tax system to enhance education on how to file tax returns and the importance of paying tax.

5.4 Recommendations:

From the study findings it was deduced that tax compliance cost has a profound effect on tax compliance. The findings suggest tax systems with low tax compliance costs are most likely to be complied with. Therefore, the tax compliance cost should be in a way that does not encourage taxpayers to evade tax. The study finds strong support for the argument that fines and penalties impacts highly on tax compliance, thus there should be moderate levels of fines and taxes to employ. This way, real estate owners will be encouraged to comply since they will keep accurate records for taxation purposes in order to avoid fines and penalties. Also, tax knowledge and education has a significant effect on tax compliance. Thus the tax system should not only provide a clear and simple guideline on how to fill tax returns but also enhance taxpayer education services to enable the taxpayers understand their rights and obligations as taxpayers. This way tax compliance levels will increase. Finally, perceived opportunity for tax evasion has a significant effect on tax compliance, therefore the tax system should target individuals at all levels of income to seal loopholes that may encourage tax evasion. Tax systems should also enhance surveillance and monitoring to ensure that all the taxpayers are brought into the tax net. Specifically, for real estate investors, mapping of all the properties should be done to ensure that they are recruited into the tax net.

5.5 Further Research Recommendations:

In future, researchers should replicate this study to cover the whole country. A study on the self-assessment system can also be carried out to determine its effectiveness on enhancing tax compliance levels. Further the study should also put into consideration the influence of Economic conditions on tax compliance.

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